

Episcopal Diocese of Eastern Michigan

TO: Congregation Treasurers, Convocation Treasurers

CC: Leadership in Charge
Convocation Presidents

FROM: Molly Girard, Diocesan Administrator
Robert Meikle, Diocesan Treasurer

RE: Audits for 2010

It is time to begin planning for and conducting the audit for calendar year 2010. Regular, thorough audits are an important part of a preventative, financial health plan for your church, regardless of how big or small it is. Audits also protect the treasurers and give peace of mind to the wardens, clergy, and church members. While audits can't prevent a financial scandal, they can help assure that financial common sense has prevailed. Minor problems can be identified and corrected before they become major.

Please follow the following link to retrieve your 2010 audit instructions: www.eastmich.org , select Business and Administration then Audits.

This link includes everything you need to get started:

- Steps to Complete Your 2010 Audit
- Why Do An Audit?
- Sample Letter of Audit Compliance
- Internal Control Self Assessment Questionnaire

The canonical deadline for sending a copy to the diocesan office is **September 1, 2011**. Thanks in advance for your commitment of time and effort. **Please mail your audit to the diocesan office:**

**Diocesan Administrator
Diocese of Eastern Michigan
924 N. Niagara St.
Saginaw, MI 48602**

Feel free to call if you have questions, 1-877-752-6020 (toll free).

To: Congregation Treasurers, Convocation Treasurers

CC: Leadership in Charge
Convocation Presidents

FROM: Molly Girard, Diocesan Administrator
Robert Meikle, Diocesan Treasurer

RE: Outside audits due this year

Our records indicate that the following churches and convocations are due to have an outside audit completed for the 2010 books. The outside audit will be due September 1, 2011.

If your records indicate something different please contact me at the phone number above. Otherwise I will be looking for an outside audit from your congregation or convocation.

Churches And Convocations Due For Outside Audits

St. Johns, Alma
Trinity, Alpena
St. Mark's, Atlanta
Christ, E. Tawas
St. Johns, Oscoda
Grace, Port Huron
Grace, Standish

Outside audits don't have to be performed by a CPA. You have the option of asking another church to do your audit and you do theirs. If done that way both churches would have their outside audits complete. The other option you have is to ask someone outside the church to conduct the audit.

Please remember that an outside audit should also be conducted when there is a change in Leadership or Treasurer.

Have a blessed day and don't hesitate to call should you have any questions at 1-877-752-6020.

WHY DO AN AUDIT?

SOME BASICS EVERY CHURCH SHOULD KNOW

- Annual audits are equivalent to annual “check-ups” with your medical doctor. Audits should be part of a preventative “financial” health plan for every church, regardless of how big or small the church’s budget is.
- Just as a physician would not be apt to give him or her self a thorough, objective physical examination, individuals responsible for receiving or disbursing funds (and their relatives) should not be the persons who conduct the annual audits. It is appropriate to include a financially knowledgeable Episcopalian from another church on the Audit Committee. If you like, the diocesan office can help you find someone from another church to help conduct the audit. An outside viewpoint can be enlightening and refreshing.
- Audits cannot prevent a financial scandal, but they can help assure that financial common sense has prevailed. Minor problems can be identified and corrected before they become major.
- The annual financial audit and financial statements, together with monthly financial reports covering all the congregation’s funds, should be readily accessible to the members of the congregation. There is no room for secrets in a healthy financial system.
- Healthy financial systems and reporting support good decision making when difficult choices must be made, because those responsible for making the decisions are freed up to focus on the choices.
- Separation of duties, rotation of duties, and adequate checks and balances are your friends in preventing and discouraging mishandling of funds. An annual audit can assure your church that these and other important safeguards are all in place.
- Thorough audits protect the Treasurer and give peace of mind to the wardens, vestry or bishop’s committee, and church members.
- Annual audits are required by national canons and as part of the “Basic Standards of Congregations” adopted by the 1997 annual convention of the diocese.

Please put the annual audit on the top of your list of things to do!

Adapted from Checkpoint, Nov. 1992

audit why do

Sample letter of Audit Compliance

Date:

To the Vestry of _____

We have audited the financial statements of _____ (hereinafter "the Parish") for the year ended December 31 _____, and have issued our report thereon dated _____. The audit was conducted to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and fairly presented in accordance with U.S. generally accepted accounting principles.

The audit included all operational, trust, endowment, and discretionary accounts of the Parish. The financial statements were audited using the reports furnished by the Parish; and any opinions, insofar as it relates to the amounts included in those basic financial statements, is based on these reports. The audit also included a review and random verification of the attached self-assessment questionnaire that was prepared by the Parish in assessing the adequacy of internal controls, and to identify potential areas of weakness, non-compliance, and/or unsound practices.

This questionnaire is designed so that a "NO" response indicates an area of potential concern. A "NO" suggests that the area may be in non-compliance with a particular policy or procedure, and/or missing or non-functioning control.

The Control Self-Assessment is divided into six categories as follows:

- I. General Controls
- II. Stewardship
- III. Cash Controls
- IV. Operating Expenditures
- V. Personnel Expenditures and Travel
- VI. Equipment and Computer Security

As part of obtaining reasonable assurance about whether the Parish's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

Auditor enters their findings here.....

Reporting Parish: _____

For the Period _____ to _____.

GENERAL CONTROLS

	Question	Yes	No	N/A
1.	The Parish prepares and presents an annual financial report to all parishioners, including a budget for the next year.			
2.	The treasurer of the Parish issues interim reports.			
3.	All banking and investment accounts are under the name of the Parish and have been approved by Vestry.			
4.	Un-reconciled financial transactions are researched and corrected in a reasonable period of time.			
5.	The number of individuals authorized for check signing, fund withdrawal or transfer, and disbursements is reasonable.			
6.	Spending is monitored versus budget and major deviations are investigated.			
7.	The Parish has created, maintained, and made available to its staff a departmental policy and procedures manual.			
8.	The Parish has completed and filed the annual Parochial report on time.			
9.	Groups that are authorized to disburse monies maintain minutes documenting the approval of expenditures.			
10.	Vestry minutes are available to all parishioners.			
11.	The overall effectiveness of the internal control system is routinely evaluated.			

II. STEWARDSHIP

	Question	Yes	No	N/A
1.	The postings and arithmetic on individual pledge records have been tested.			
2.	Contribution budgets are periodically compared to actual, and significant differences are investigated.			
3.	Records for gifts, such as bequests, which are contingent on future events are maintained and periodically reviewed.			
4.	Files are kept on life income, endowment, and annuity gifts including information on the nature of the principal, investment or use of the principle restrictions, and relevant correspondence from donors or beneficiaries.			
5.	Investments and records have been checked to ensure they match the defined terms of the related trust or endowment.			
5.	A statement of actual contributions made compared to budget is available to contributors.			
6.	Separate investment accounts and financial records are maintained for gifts, trusts, and endowment accounts.			

Reporting Parish: _____

For the Period _____ to _____.

III. CASH CONTROLS

	<i>Question</i>	Yes	No	N/A
1.	The Parish's petty cash funds are necessary and have procedures for control and reconciliation			
2.	The Parish does not have unauthorized bank accounts or charge accounts.			
3.	Cash deposits are sufficiently documented.			
5.	Individuals responsible for cash handling and deposit preparation are familiar with applicable policies.			
6.	Deposits are made on a daily basis (i.e., in a timely manner) where practical.			
7.	Daily collections are held in a secure manner (e.g. a safe) until deposited.			
8.	Checking accounts are reconciled to the accounting records and checkbook using an independently received bank confirmation.			

IV. OPERATING EXPENDITURES

	Question	Yes	No	N/A
1.	Check requests, including personal reimbursements, are properly authorized, sufficiently documented, and for appropriate Parish purposes.			
2.	Credit card use, if applicable, is adequately controlled and transactions are properly reviewed and sufficiently documented, for appropriate Parish purposes, and accounted for correctly in the financial system.			
3.	The bank is notified immediately of all changes to authorized check signers.			
4.	Parish has written procedures documenting when two signatures are required on checks.			
5.	Disbursements are authorized by a party other than the check signer.			
6.	Un-used checks are held in a secure manner (e.g. a safe).			
7.	No checks are made payable to cash.			

Reporting Parish: _____

For the Period _____ to _____.

V. PERSONNEL, EXPENDITURES AND TRAVEL

	Question	Yes	No	N/A
1.	Timesheets are properly authorized and agree with payroll records.			
2.	The Parish tracks and maintains adequate records of employees' vacation time and sick leave.			
3.	Staff understands the Parish's policy on personal use of parish equipment (including telephone).			
4.	Travel/business expense reports are properly authorized and documented. Expenses comply with Parish policy.			
5.	All Federal, State, and local withholding taxes are remitted on a timely basis.			
6.	A current, signed Form W-4, I-9 or other required forms is on hand for each employee.			
7.	Job descriptions are accurate and up-to-date. Major expectations are included in the job description.			
8.	Staff payroll changes are documented.			

V. EQUIPMENT AND COMPUTER SECURITY

	Question	Yes	No	N/A
1.	Items listed on the Parish's property list are easy to locate, properly tagged, and in good condition.			
2.	Insurance coverage has been reviewed and the Parish has a copy of policies and a schedule detailing name of carrier, description of coverage, period covered, premium amount, and date of premium.			
3.	Parish has a detail schedule of all indebtedness including name of creditor, date of origin, original amount of debt, interest rate schedule, monthly payment, loan purpose, and authorizing body.			
4.	The Parish can establish its ownership of all software installed on parish computers.			
5.	Physical security of personal computers and workstations is adequate.			
6.	Password security over computer systems access is adequate.			
7.	Backup and recovery procedures for personal computers and LANs appear adequate.			

Signature: _____

Date: _____

{Church Stationary }

to: Lead Auditor

cc: others on the audit team

We are thankful that you have agreed to do the [annual/5 year] audit for (name of church). We will provide all information requested either as copies or as access to originals as the audit team requires. We agree to authorize any financial institutions with which we do business to provide the necessary proof of holdings that your audit may require. The primary contact for this audit will be our *officer* His/Her Name.

We request that the final report be in the hands of our vestry no later than the August vestry meeting to be held Aug __ so that we can certify your results and get it to the Diocesan office by September 1.

[We agree to reimburse your expenses as presented to us and reimburse mileage at \$.__ per mile [and will pay a fee of \$___ for your services]. / We understand you are willing to provide this service without reimbursement].

Sr. Warden

Jr. Warden

Priest in Charge

Accepted for the audit team *signature on date*

Items in brackets are "pick one or none".

STEPS TO COMPLETE YOUR 2010 AUDIT

By September 1, 2011

1. “An Outside Audit is Required every Five Years.” Churches that are due for an outside audit that have used audit committees in the past are expected to engage a CPA, other licensed professional, or someone with accounting experience that isn’t connected to your church. If you aren’t due for an outside audit you may conduct an internal audit without prior written permission from the Diocesan Treasurer.

ATTACHED YOU WILL FIND A LIST THAT INDICATES WHICH CHURCHES ARE DUE FOR AN OUTSIDE AUDIT; ALL OTHERS MAY CONDUCT INTERNAL AUDITS UNLESS THERE HAS BEEN A CHANGE IN LEADERSHIP OR TREASURER.

2. The *Manual of Business Methods in Church Affairs (MBMCA)* is a most helpful tool for the person(s) conducting the audit. If you do not have a copy at your church, contact the diocesan office. After reviewing the manual, plan the audit.
3. The attached **Internal Control of Self Assessment Questionnaire** is to be completed by the treasurer/bookkeeper and signed by the vestry. The Questionnaire is then to be given to the auditor before the audit is conducted. The auditor will then use this as a resource when conducting the audit.
4. The Auditor conducts the audit according to the Manual. Remember to audit all accounts and funds of the church, including: general (operating), savings, investment, endowment, memorial, property, building, rector’s discretionary, ECW, etc.
5. The Auditor prepares a written letter of audit compliance for the Vestry. Under the Auditor’s findings the audit compliance letter should clearly cover the following points:
 - What the auditor did
 - What the auditor found
 - What was done about the previous year’s recommendations from the auditor or audit committee
 - What the auditor recommends for improvements in the coming year.
 - What the auditor’s opinion of the books is
6. Send a copy of the following to the Diocesan Office **before September 1, 2011:**
 - **Letter of Audit Compliance completed and signed by auditor.**
 - **Vestry approval of the audit**
 - **Income statements and balance sheets of all funds audited**
 - **Internal Control Self-Assessment Questionnaire** “this form is required”

Please address to:
Diocesan Administrator
Episcopal Diocese of Eastern Michigan
924 N. Niagara St.
Saginaw, MI 48602
6. Call Diocesan Administrator Molly Girard if you have any questions at 877-752-6020